SECTION IV-IMPROVING BUSINESS PRACTICES

Providing our Sailors, Marines, and civilians with high quality facilities, information technology, and an environment to achieve their goals are fundamental to mission accomplishment. The ability to project power through forward deployed naval forces relies heavily on a strong and efficient shore support structure.

BUSINESS SYSTEMS TRANSFORMATION

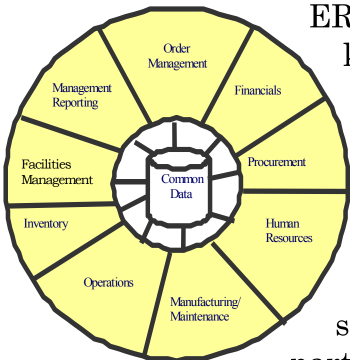
The Department is aggressively adopting proven best commercial practices in meeting our transformation objectives. Our initiatives will complement each other by delivering more accurate, reliable, and timely management data within an integrated automated environment. This business intelligence will better relate our resource investments to operational capabilities or outcomes, providing our warfighters and key decision makers with the information they need, when they need it. Our business transformation strategy involves four key elements:

- **Framework:** Overarching DoD Business Enterprise Architecture (BEA)
- **Cornerstone:** Navy Converged Enterprise Resource Planning (C-ERP)
- **Transition Tool:** Functional Area Management (FAM)
- **Integrated Game Plan**: DON Financial Improvement Plan (FIP)

Finally, the Navy-Marine Corps Intranet (NMCI), well on its way to full implementation, and Information Technology (IT) Portfolio Management provide the information technology infrastructure for business systems transition.

Framework: Business Enterprise Architecture (BEA). The DoD Business Management Modernization Program (BMMP) continues to evolve, providing the framework within which business processes will operate. The primary product of the BMMP is its architecture, or BEA. The BEA is a set of rules, standards, and principles which will guide selection of future business systems that provide internal controls and support interoperable processes. The BEA emulates best private sector practices and consequently will encourage use of commercial off-the-shelf (COTS) software.

Cornerstone: Navy Enterprise Resource Planning (ERP) Program. BMMP encompasses many distinct business segments, processes, and applications. Within the Navy, we will implement BEA through ERP as our primary long-term vehicle. Navy ERP is the key enabler of the Sea Enterprise vision to transform business processes and generate efficiencies to improve our combat capabilities. ERP is a COTS management system integrating business functional areas across an organization. ERP fosters elimination of redundant legacy systems and the streamlining of business processes. All essential data is entered into an ERP system once and remains accessible to all process participants on a real-time basis; providing consistent, complete, relevant, timely, and accurate information for decision-making.



The Department of the Navy used four pilot programs to explore ERP's effectiveness. Once operational, the pilots proved ERP can support the Navy's business operations within program management, financial management, supply chain management, and maintenance. Given the success of these pilots, the Department directed the fusion of the four pilots into a single system, the Converged ERP (C-ERP). C-ERP will integrate and improve processes for logistics, acquisition, and financial operations. To do this, C-ERP will develop a template for implementation broadly across the Navy. The first release of C-ERP is planned for 2006.

Transition Tool: Functional Area Management (FAM). In addition to Navy C-ERP, and to better manage our interim efforts while we are implementing it, the DON has embraced portfolio management as a tool to optimally transform our systems. The Department's Chief Information Officer is utilizing the FAM construct along with the IT portfolio management tool as the mechanism to select the optimal mix of IT investments in achieving required capabilities. To illustrate, several diverse data repositories are being consolidated into a single, authoritative source of IT systems and application data, namely the DON Application and Database Management Systems (DADMS). Of note, in deciding to establish a similar authoritative repository for the entire DoD, DADMS was selected as the vehicle and now supports the Defense Information Technology Portfolio Repository.

Functional Area Managers (FAMs) have been assigned in both the Navy and Marine Corps and are at the hub of the information technology capital planning process. Specifically, FAMs are tasked with tallying the inventory of systems and reducing redundancy. FAMs will use the BEA and the future C-ERP deployment to develop the Department's legacy systems transition plan. With the establishment of the Assistant Chief of Naval Operations for Information Technology (ACNO IT) efforts in establishing portfolio management ensure a comprehensive, coordinated IT enterprise strategy Navy-wide. The Director, Marine Corps Business Enterprise facilitates the Marine Corps' transition towards a more comprehensive and integrated business process and systems strategy.

Integrated Game Plan: DON Financial Improvement Plan (FIP). Even as we transform all business processes for long-term installation across the enterprise, we are clearly focused on continuing near-term improvements in the financial management area. The DON FIP will integrate elements of the initiatives described above. As business processes are transformed, the FIP will validate that processes are ready for audit, leveraging the best commercial practices embedded in the software and documenting all business processes - ensuring that acceptable controls are in place. The Chief Financial Officers (CFO) Act of 1990, as amended by the Government Reform Act of 1994, requires executive agencies to produce audited financial statements complying with accepted standards.

To comply, DoD must achieve an unqualified ("clean") opinion. DON, working with the Office of the Undersecretary of the Defense (Comptroller), has completed its FIP, which in turn has been incorporated into the DoD Financial Improvement Initiative. The FIP is the vehicle that will prepare DON for audit. A clean audit opinion ultimately validates the integrity and accuracy of our financial information - one desired outcome of DON Business Process Transformation.

Navy Marine Corps Intranet (NMCI): All of our business transformation objectives require a reliable, modern, interoperable infrastructure to be successful. NMCI offers the opportunity for the Department of the Navy to leverage new technologies and industry innovation to better achieve our global

naval mission. It will enable connection to the national infrastructure, extend sharing and creation of knowledge and expertise worldwide, empower innovative work and training, and enhance the quality of service for every Marine, Sailor, and civilian. The connectivity NMCI provides will enable our people to increase their productivity and access all the resources that extend throughout the naval enterprise and our Nation. NMCI has also been a forcing function causing the Department to take inventory of its legacy application portfolio, which has subsequently been reduced by 88%. The NMCI contract was awarded in October 2000 for $6.9 billion and represents the largest service contract ever awarded by the Department of Defense. Congress authorized a two-year extension of the basic five-year contract in September 2002. We have fully accommodated the implementation of the NMCI within existing budget totals and reflected the distributed costs and benefits throughout the operational programs of the Department.

The budget supports total NMCI-specific costs for FY 2006 of $1.6 billion and implementation of approximately 346,000 seats, with a steady state to be reached during FY 2006. As of January 2005, the Navy had placed orders for 338,000 seats and cut over approximately 237,000 seats.

In summary, the goal of DON's Business Process Transformation is to provide reliable, accurate, and timely business intelligence, supporting resource efficiency and sound business decisions. It will involve building a modern, integrated, automated environment within the DoD architecture, using Navy's ERP as the cornerstone. We will streamline our legacy systems inventory using portfolio management within the FAMs, controlling investments in information technology. Ultimately, a clean audit opinion will validate the transformation's success.

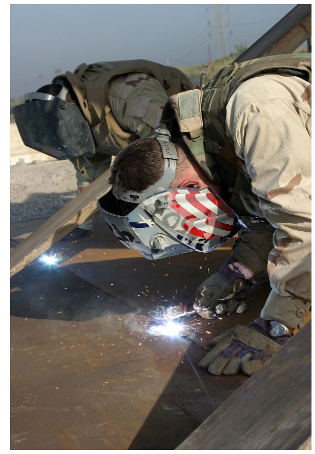
MILITARY CONSTRUCTION

The Department of the Navy's facility investment strategy focuses on recapitalizing inadequate and inefficient facilities, constructing new facilities to

improve the quality of life of our Sailors and Marines, enhance anti-terrorism and force protection, and correct critical deficiencies and support new mission requirements. The FY 2006/FY 2007 budget requests 52 and 68 military construction projects in FY 2006 and FY 2007, respectively, for the active Navy and Marine Corps; and, five and seven military construction projects in FY 2006 and FY 2007, respectively, for the Navy and Marine Corps reserves. Financing a portion of the FY 2006 request with prior year appropriations has allowed the Department to purchase additional projects and meet the key goals that underlie the Department's strategy. The FY 2006/FY 2007 budget request achieves the Department's key goals as follows:

<u>The FY 2006/FY 2007 budget provides state of the art facilities to meet new and critical mission requirements</u>:

- Strategic Warfighting Training, Analysis, Simulation and Decision Support, Pearl Harbor, Hawaii



- V-22 Maintenance Facilities, Cherry Point, NC
- MMA Technical Support Facilities, Patuxent River, MD
- Presidential Helicopter Support Facilities, Patuxent River, MD, Quantico, VA, and VARLOCS
- Assault Breacher Vehicle, Camp Pendleton, CA and Camp Lejeune, NC
- H-60 Series Helicopter Training and Maintenance Facilities, Mayport, FL; Norfolk, VA; Jacksonville, FL
- F/A-18 E/F Hangar and Flight Line Upgrades, Virginia Beach, VA, Cherry Point, NC (FY 2007)
- SSGN Improvements, Marianas Finegayan, Guam; Bangor, WA
- Marine Corps training facilities and armories, Cherry Point, NC; Camp Lejeune, NC; Camp Pendleton, CA (FY 2007); Quantico, VA (FY 2007), and Miramar, CA (FY 2007).

<u>The FY 2006/FY 2007 budget provides improved Anti-Terrorism/Force Protection for our Sailors and Marines at:</u>

- Silverdale, WA
- Camp Pendleton, CA
- New River, NC
- King's Bay, GA (FY 2007)
- Miramar, CA (one project, FY 2007)

<u>The FY 2006/FY 2007 budget request achieves several of the Department's key Quality of Life goals:</u>

- The Department continues its efforts to provide quality housing for single Sailors and Marines through the use of public private ventures (PPV), investments in military construction, and a stable basic housing allowance. The Department achieves the goal of housing sailors ashore with the construction of specifically identified "Homeport Ashore" bachelor housing projects through FY 2008. In FY 2006, these projects include:
    - Mayport, FL
    - Everett, WA
    - Coronado (North Island), CA (PPV)
    - Bremerton, WA - Included in the FY 2005 President's Budget as a traditional MILCON project (2 increments), this project has been selected as the third barracks privatization pilot project, using FY 2005

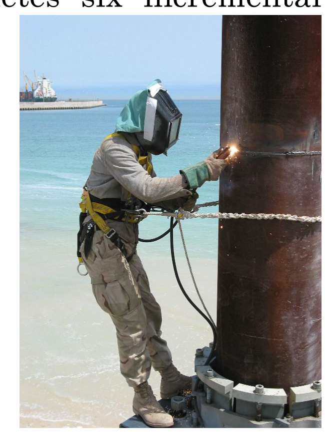
MILCON funds as seed money. The FY 2006 funds have been used to purchase the additional Homeport Ashore projects.

- The Department has made significant improvements in the quality of Marine housing through the construction of modern BEQs and student housing at Camp Lejeune, NC, Camp Pendleton, CA, and Quantico, VA; and dining facilities at Camp Lejeune, NC, and Beaufort, SC (FY 2007).
- The Department achieves the goal of eliminating inadequate bachelor housing by the replacement of gang heads in bachelor quarters with private or semiprivate facilities by FY 2007 (Marine Corps achieved this goal in FY 2005).
- The Department has improved the quality of facilities available to our officer candidates and enlisted trainees through the addition of the Wesley Brown Field House, at the United States Naval Academy, Annapolis, MD, two Recruit Training Barracks projects and a major infrastructure upgrade at Great Lakes, IL, and a Physical Fitness Center at Camp Pendleton, CA (FY 2007).

The Department continues its ambitious waterfront and airfield recapitalization program at: at Yuma, AZ; Colts Neck, NJ; Little Creek, VA; Norfolk, VA; Portsmouth, VA; Quantico, VA; and El Centro, CA in FY 2006; and Yuma, AZ, China Lake, CA, Camp Pendleton, CA, Lemoore, CA, Coronado (North Island), CA, San Diego, CA, Twenty-Nine Palms, CA, Key West, FL, Cherry Point, NC, Kingsville, TX, Norfolk, VA, Portsmouth, VA, and Whidbey Island, WA in FY 2007.

The FY 2006/FY 2007 budget also continues or completes six incremental projects begun in prior years. These include:

- VXX Presidential Helicopter Programs Test/Support and Maintenance Facilities, NAS Patuxent River, MD and MCAF Quantico, VA
- F/A-18 Outlying Landing Field, Washington Cty, NC
- Hangar Recapitalization, El Centro, CA
- General Purpose Berthing Pier Replacement (Inc III), NWS Earle, Colts Neck, NJ
- Pier 11 Replacement (Inc III), NS Norfolk, VA
- Limited Area Production and Storage Complex (Inc II), Strategic Weapons Facility Pacific, Silverdale, WA



FY 2006/FY 2007 MILCON Summary (Active & Reserve)

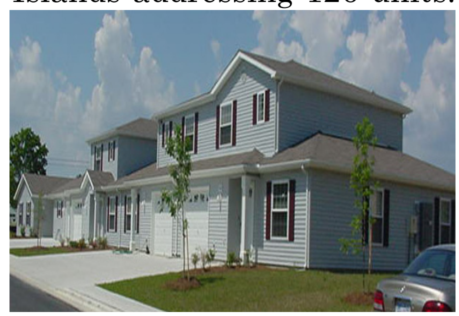
$M	FY 2004	FY 2005	FY 2006	FY 2007
Navy	992	961	956	1,075
Navy Financed w/ Prior Year Funds	-	-	-76	-
Marine Corps	321	292	211	337
Marine Corps Financed w/ Prior Year Funds	-	-	-16	-
Total	**$1,313**	**$1,253**	**$1,074**	**$1,412**

Note: Totals may not add due to rounding.

FAMILY HOUSING

The FY 2006/FY 2007 budget request continues on course to eliminate inadequate units by FY 2007 through a three-pronged strategy consisting of privatization of housing, improved housing allowances, and construction. Though funding decreases from FY 2005 levels, the Department achieves the goal of zero inadequate family housing units by FY 2007. Performance expectations for family housing are reflected in Chart 13.

For the Navy there is a $43.5 million ($3.2 million forward-financed) replacement project planned for Guam, Marianas Islands addressing 126 units. Also, there is $66.3 million planned in improvements construction at Guam, Marianas Islands, and Atsugi & Yokosuka, Japan addressing 396 inadequate units. In addition, PPV awards are planned in the Southeast Region, Hawaii Region, and San Diego, correcting 4,777 inadequate units. In addition to government financing, we estimate the private sector will contribute over $1.3 billion worth of development capital for these PPV projects in FY 2006.

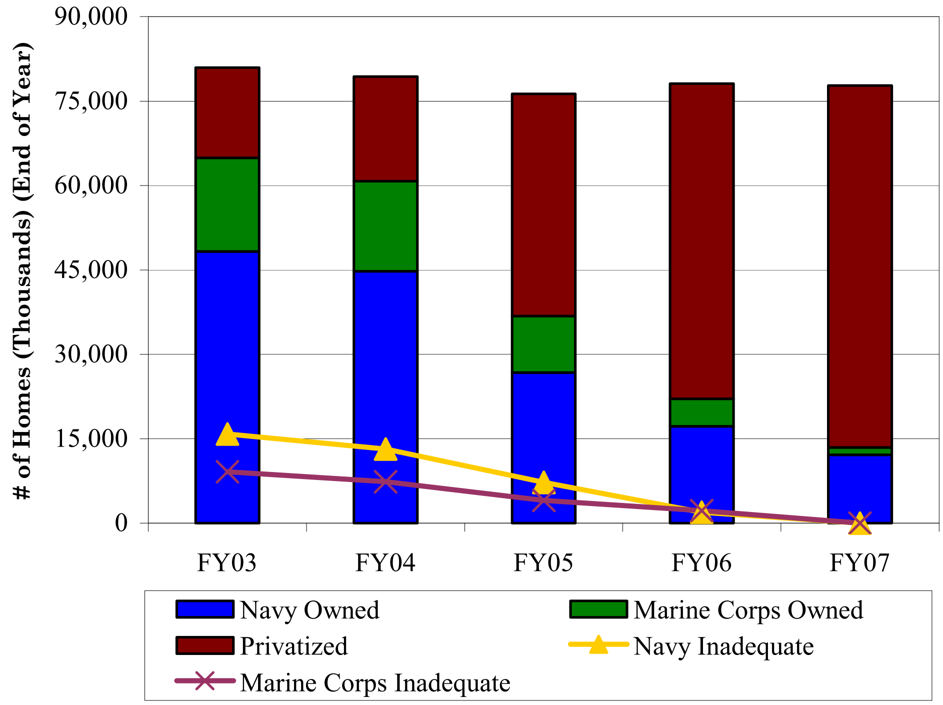


For the Marine Corps, there is over $112 million budgeted for privatization projects. Privatization of 5,138 homes, eliminating 1,804 inadequate units and constructing 587 deficit-reduction units, is planned at Marine Corps Base Camp Lejeune and Marine Corps Air Station Cherry Point in North Carolina; Marine Corps Base Camp Pendleton, California; and Marine Corps Base Hawaii with an "end-state" of 5,454 units. In addition to government financing, we estimate the private sector will contribute over $0.3 billion worth of development capital for these PPV projects in FY 2006.

Family Housing Units

	FY 2004	FY 2005	FY 2006	FY 2007
New construction projects	4	-	1	2
Construction units	1,045	-	126	242
Privatization projects/units	2,541	20,891	16,495	8,357
Average # of units (Worldwide)	63,048	51,455	33,265	22,049

Chart 13 - Family Housing End of Year Inventories



FACILITY SUSTAINMENT, RESTORATION, AND MODERNIZATION

Appropriate investments of facility sustainment, recapitalization, and demolition funds are designed to maintain an inventory of facilities in good working order and preclude premature degradation. The annual facility sustainment requirement, determined by the Department of Defense's facilities sustainment model, is calculated by applying both a unit sustainment cost (based upon industry facility standards) and a geographic area cost factor to the appropriate unit quantity (square feet, linear feet, etc.). The DoD goal is to have no more than five percent deferred sustainment through FY 2007, and then to fund sustainment at 100 percent of requirement beginning in FY 2008. The Department of the Navy achieves this sustainment goal.

The Department utilizes an industry-based facility investment model to keep the facility inventory at an acceptable level of quantity and quality through life-cycle maintenance, repair, and disposal. Facility recapitalization (based upon industry facility standards) occurs through restoring or modernizing aged and damaged facilities. The annual funding requirement for facilities restoration and modernization (R&M) is based on the Department of Defense (DoD) goal of correcting facilities deficiencies to achieve a C-2 readiness rating in all facilities mission areas by FY 2010 and to achieve a recapitalization rate of 67 years by 2008. Readiness ratings (C-1, C-2, etc.) are described in the Installations' Readiness Report. While the Department's goal is to fully fund the requirement for replacement and R&M, competing priorities have led to the decision that a level of risk was acceptable in this area. Thus, the FY 2006/FY 2007 budget does not meet the DoD goal.

Table 17 summarizes the Department's Facility Sustainment, Restoration, and Modernization program.

Table 17

Department of the Navy

Facility Sustainment, Restoration, and Modernization

(In Millions of Dollars)

	FY 2004	FY 2005	FY 2006	FY 2007
Navy	1,032	1,265	1,328	1,309
Marine Corps	532	508	533	544
Total DON Facility Sustainment (All Appns)	**$1,564**	**$1,773**	**$1,861**	**$1,853**
<u>Annual Unfunded Sustainment</u>				
Navy	335	56	71	70
% of Model Funded (Goal is 95% through 2007)	*75%*	*95%*	*95%*	*95%*
Marine Corps	21	26	28	28
% of Model Funded (Goal is 95% through 2007)	*96%*	*95%*	*95%*	*95%*
Total Unfunded Sustainment	**$356**	**$82**	**$99**	**$98**
<u>Restoration and Modernization (R&M) Funding</u>				
Navy	971	980	1,051	1,237
Marine Corps	215	294	241	354
Total DON R&M (All Appns)	**$1,187**	**$1,275**	**$1,292**	**$1,591**
Facilities Recapitalization Rate (Navy)	103	104	98	85
Facilities Recapitalization Rate (Marine Corps)	109	82	103	72

Note: Totals may not add due to rounding.

<u>Also refer to Appendix A for more information</u>:	<u>Table</u>
Military Construction, Navy and Naval Reserve	A-18
Family Housing, Navy and Marine Corps	A-19
Base Realignment and Closure Accounts	A-20

BASE REALIGNMENT AND CLOSURE (BRAC)

The BRAC process has been a major tool for reducing the domestic base structure and generating savings. Continuing to balance the Department's force and base structures by eliminating unnecessary infrastructure is critical to preserving future readiness.

The FY 2006/FY 2007 budget emphasizes the Department's commitment to environmental compliance and restoration, while also fulfilling real estate and caretaker functions prior to property disposal at BRAC sites from the four prior BRAC rounds and Naval Station Roosevelt Roads. Due to disposal/conveyance of property at the former Naval Air Station, Adak, Alaska in FY 2004, the Department of the Navy expects to have less than 8,000 acres left to dispose of by the end of FY 2005.

The FY 2006 budget also finances critical regulatory efforts, while employing revenue from the sale of property at the former Marine Corps Air Station, El Toro, CA; to accelerate environmental cleanup at Marine Corps Air Station Tustin, CA; Marine Corps Air Station El Toro, CA; Naval Air Station Moffet Field, CA; Naval Air Station Alameda, CA; Hunters Point Naval Shipyard, CA; Naval Station Treasure Island, CA; Naval Shipyard, Mare Island, CA, and other BRAC locations.

The Department began administrative preparations for BRAC 2005, which will focus on elimination of excess physical capacity. The DON has established an Independent Analysis Team (IAT) and a program management office (PMO) comprised of experienced personnel. IAT accomplishments include contributions in developing Secretary of Defense (SECDEF) installation selection criteria, force structure plan, and infrastructure inventory. PMO accomplishments include cooperative agreements to ensure oversight, streamline the process, and consolidate accountability within the Department. In 2005, the critical dates for the BRAC process are:

- Presidential Commissioner nominations 15 March
- SECDEF recommendations for closure or realignment 16 May
- Final Commission report 8 September
- Presidential approval or disapproval 7 November
- Congressional disapproval (only if applicable) 21 December

Our budget request does not reflect specific BRAC 2005 outcomes. However, $30 million is budgeted in FY 2007 for BRAC-related global posture studies.

Also refer to Appendix A for more information:	**Table**
Base Realignment and Closure Accounts	A-20

NAVY WORKING CAPITAL FUND (NWCF)

In FY 2006 and FY 2007, NWCF activities will continue to play a significant role in the Department's operations, and in the reconstitution of its equipment and supplies used in support of the Global War on Terrorism. The total cost of goods and services to be delivered by NWCF activity groups to their customers in FY 2006 and FY 2007 is projected to exceed $26 billion. NWCF activity groups include Supply Management, Depot Maintenance, Research & Development, Base Support and Transportation.

In the area of supply management, the Department continues to focus on delivering combat capability through logistics support. Ensuring the right material is provided at the proper place, time and cost is vital to equipping and sustaining our warfighting units. To this end, the Department continues to pursue initiatives to control costs and improve readiness. Until we recapitalize and modernize our forces in volume, our older weapon systems combined with higher utilization rates, will continue to generate increased demand for spare parts. This is one reason the Department's request for material obligation authority remains high.

Spare parts are a single element within a complex and intricately balanced system to keep weapon systems safe and operating at optimal capacity. Towards this goal, the Department needs more robust information systems to collect, process, and share data from other integrated logistics support elements, such as training and maintenance. Hence, the Department continues to fund the Converged Enterprise Resource Planning initiative, which will provide better tools to assess program costs and implement cost reducing procedures. These efforts, along with reducing weapon systems average age, will stem spare parts demand growth and allow the Department to provide improved logistics support at lower cost.

The Marine Corps Depots have experienced a large influx of unplanned workload for performance in FY 2004 and FY 2005. This is largely due to repair of combat-damaged equipment and weapons systems, and the installation of armor plating on combat vehicles. The workload is projected to level off by FY 2006, but operational contingencies could further extend this period of increased effort.

For the Base Support area, FY 2006 is expected to include the addition of 28 new Public Works Center (PWC) detachments across the Continental United States. These sites are currently independent public works departments under the control of different regional commands. The consolidation of these organizations as PWC detachments is expected to help reduce operating costs and standardize delivery of the various utility commodities and other products.

Increased force protection requirements for vessels operated by the Military Sealift Command following the attacks of September 11, 2001, were initially financed with Supplemental appropriations, but will now be incorporated in FY 2006/FY 2007 rates to reflect projected ongoing force protection requirements.

Lastly, the Department projects its NWCF cash balance to remain below the minimum seven-day level prescribed in the DoD Financial Management Regulation throughout the FY 2005-2007 period. Supplemental funds will be necessary to sustain minimum levels and remain solvent. The decline in the NWCF cash balance is not due to net operating losses but directly attributable to the cumulative effect of directed transfers. To ensure uninterrupted support of naval forces supporting the Global War on Terrorism and other operations, it may be necessary to judiciously invoke advance billing authority contained in 10 USC 2208, Working Capital Funds. The Department will expeditiously notify the Congress in the event that this occurs.

Table 18

Department of the Navy
Summary of NWCF Costs

(In Millions of Dollars)

	FY 2004	FY 2005	FY 2006	FY 2007
COST				
Supply (Obligations)	5,587	7,474	7,993	8,211
Depot Maintenance - Aircraft	2,210	2,134	2,158	2,202
Depot Maintenance - Ships	2,309	1,569	1,610	1,519
Depot Maintenance - Marine Corps	312	280	257	207
Transportation	1,777	1,981	2,033	2,022
Research and Development	10,296	10,047	10,287	10,258
Base Support	1,581	1,721	2,091	2,149
TOTAL	**$24,073**	**$25,205**	**$26,429**	**$26,570**
CAPITAL INVESTMENT				
Supply	50	15	15	15
Depot Maintenance - Aircraft	41	42	42	42
Depot Maintenance - Ships	21	27	25	26
Depot Maintenance - Marine Corps	4	4	5	5
Transportation	13	15	28	29
Research and Development	112	116	117	113
Base Support	19	19	18	17
TOTAL	**$259**	**$238**	**$249**	**$246**

Note: Totals may not add due to rounding.

Managing Risk - Performance Metrics

The FY 2006/FY 2007 budget consolidates Strategic Planning Guidance objectives and performance management goals of the President's Management Agenda with the 2001 Quadrennial Defense Review goals under a balanced scorecard for risk management and designates metrics the Department of Defense (DoD) will use to track associated performance results. The cascading performance metrics/outcomes for each DoD risk area are shown below:

FORCE MANAGEMENT RISK

Maintain a Quality Force	Ensure Sustainable Military Tempo and Workforce Satisfaction
Maintain Reasonable Force Costs	Shape the Force of the Future

OPERATIONAL RISK

Ensuring Force Availability	Maintaining Force Readiness
Shaping Force Posture	Linking Contingency Planning to Capabilities and Resources

INSTITUTIONAL RISK

Institutionalizing Capabilities-Based Planning, Improving Financial Management, and Driving Acquisition Excellence	Improve the Readiness and Quality of Key Facilities
Manage Overhead/ Indirect Cost	Realign Support to the Warfighter

FUTURE CHALLENGES RISK

Drive Innovative Joint Operations	Define Human Capital Skills and Competencies
Develop More Effective Organizations	Define and Develop Transformational Capabilities

Performance information developed from these metrics will be used to describe the Department's performance goals and results for all related performance reports, including the President's Management Agenda and the Program Assessment Review Tool. The budget reflects a balance among the four risk areas.

<u>Force Management Risk</u> - providing a trained and ready force is the leading output or business of the Department of Defense; unlike many other investments the Department makes, investments in our people--military and civilian--appreciate in value over time.

The Department is reducing risk by continuing ongoing efforts to improve force management and reduce stress on the force. One of our most valued resources is the people that support the Navy and Marine Corps team. The Navy and Marine Corps continue to maintain a robust overseas presence and rotational posture in support of the defense strategy. Sailors and Marines are based forward and deploy as part of their inherent responsibilities. They join and re-enlist with the understanding that this is part and parcel of their commitment to serve. The Navy has budgeted for fewer military strength in FY 2006 and is confident that this budget supports proper sizing of force and all assigned missions can be accomplished with this level as a result of force structure changes, efficiencies gained through technology, altering the workforce mix, and new manning practices. The Department continues to explore new manning practices and workforce balance options, including military to civilian conversions. The Department of the Navy continues to focus on recruiting and retaining the right people, and we are encouraged by achievement of these recruiting goals and improved retention in the career force. Training our Sailors, Marines, and civilian employees is critical to implementing transformation initiatives and to ensuring optimum results. The Department is transitioning its training concepts and methods from the traditional schoolhouse approach to processes that involve the use of simulators, trainers, computer-based interactive curriculums and other approaches that are media based. We have piloted elements of the Sea Warrior initiative as a means to capitalize on the revolution of training in detailing.

The National Security Personnel System (NSPS) authorized by Congress provides DoD leaders the right tools to manage the civilian workforce today and for the future. The NSPS reforms will provide supervisors and managers greater flexibility in managing our civil service employees, facilitate competition for high quality talent, offer compensation competitive with the private sector, and reward outstanding service. The DON will prominently participate in the first wave of conversions to NSPS, and we will work closely within DoD to ensure we meet this aggressive timeline.

<u>Operational Risk</u> - ensuring U.S. military and civilian personnel are ready at all times to accomplish the range of missions assigned in the defense strategy is the leading defense customer priority.

The Department is reducing risk by emphasizing capabilities that better address irregular, catastrophic and disruptive challenges. This includes winning the Global War on Terrorism, enhancing capabilities to conduct stability operations, and improving homeland defense. The power of our combat capability has been strong in the areas of forward presence forces and our ability to surge. Key readiness accounts are funded to ensure that our forces are prepared to meet any tasking and sized to support the “6+2” surge plan. The Fleet Response Plan yields an increased surge capability and a more responsive force. Deployed air/ship/Marine Expeditionary Force operations are budgeted to maintain highly ready forces. Non-deployed OPTEMPO levels provide primarily training of fleet units but maintain a combat ready and rapidly deployable force. This budget request incorporates force structure changes that clearly reflect the wider range of operations and contingencies called for in the defense strategy. This budget reflects decommissioning of some older ships and aircraft with high operations and support costs relative to the combat capability they provide. Funding continues for the 4th Marine Expeditionary Brigade (AT) to detect, deter, defend, and conduct initial incident response to combat the threat of terrorism and continues the fielding of improved combat equipment.

Future Challenges Risk - anticipating future threats and adjusting capabilities to maintain a military advantage against them is the leading learning and growth priority for the Department of Defense.

The Department is balancing risk by moving through a generational shift in our weapons acquisition programs. FY 2005 DDGs are planned to be our last buy of ships in service today. FY 2006 will be a transformational year as the Department continues the shift to next generation warships. Transformation is most apparent in FY 2006 where new construction is limited to four ships as we focus on shifting to next generation surface combatants and sea basing capabilities. The total number of new ships procured over the FYDP is 49, averaging 8.2 ships per year including DD(X), the Littoral Combat Ship (LCS), VIRGINIA Class SSN, CVN-21, MPF(F), LPD-17, and LHA(R). The budget also reflects a shift from R&D to production in a number of critical aviation programs, such as EA-18G and unmanned aerial vehicles (UAVs). Including the aircraft funded with RDT&E,N, the number of aircraft requested increases from 115 in FY 2005 to 138 in FY 2006. This includes the first four EA-18G aircraft, five VXX helicopters, and three Firescout UAVs. The budget continues to maximize the return on procurement dollars, primarily through the use of multi-year procurement for the F/A-18E/F and EA-18G, the E-2C, the MH-60S, and the KC-130J programs. Funding continues for development of FORCEnet, an architecture that will integrate sensors, networks, decision aids, and weapons into an adaptive human control maritime system in order to achieve dominance across all warfare systems. The Department is maintaining a steady investment while seeking to maximize the yield relevance and degree of innovation in the overall Science and Technology program.

Institutional Risk - ensuring that DoD financial, acquisition, and resource management processes are streamlined and efficient is what drives the underlying financial principles of doing defense business; just as the Department transforms its operational capabilities, it must also reform its underlying support structures to be more efficient and exploit creative technology solutions.

The Department is reducing risk by emphasizing implementation of capabilities-based planning. This budget request represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources for improved business. In an effort to improve shore installation effectiveness, the Navy has identified best business practices, set Navy-wide standards of service, developed metrics, and linked standards and metrics to required readiness levels. We continue to work within the Business Management Modernization Program to transform business processes and develop integrated enterprise solutions. The Navy Marine Corps Intranet and Converged Enterprise Resource Planning are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. As a Department, we continue to aggressively challenge our Systems Commands and other shore activities to improve processes, find efficiencies, and eliminate legacy information systems.

The information below provides page references to the performance information contained in this document and in detailed budget justification materials supporting the FY 2006/FY 2007 budget submission.

Risk Category	Strategic Goal	Performance Measure	Page #
Force Management Risk	Maintain a Quality Force	Number of Recruiters	3-3, 3-6
		Number of Recruits	3-3, 3-6
		Size of Delayed Entry Program	3-3, 3-6
		Enlisted Attrition Rates	3-4, 3-7
	Ensure Sustainable Military Tempo	Ships Deployed	2-7
		MEUs deployed	2-7
		Ships Underway	2-7
		MEUs predeployment	2-7
		Active/Reserve Navy/Marine Corps Strength	3-3, 3-4, 3-5, 3-7, 3-8
		# of Reserves Activated	2-7
		# of Deployed Sailors	2-7
		# of Deployed Marines	2-7
	Maintain Workforce Satisfaction	PERSTEMPO	3-2
		Enlisted Reenlistment Rates	3-4, 3-7
		Career Pay Enhancements	3-2
	Maintain Reasonable Force Costs	Competitive sourcing study positions	3-10
		Civilian manpower levels	3-9, 3-11
		Costs for Accession/Basic Skills/Advanced Training	3-2
		Total Paid Compensation	3-1
	Shape the Force of the Future	Implement optimized, supportable future force structure and workforce	3-2

Institutional Risk	Streamline Decision Processes, Drive Financial Management and Acquisition Excellence	Implement Enterprise Resource Planning	4-2
		DON Financial Improvement Plan (DON FIP)	4-3
		Number of Navy Marine Corps Intranet Seats	4-3
	Manage Overhead and Indirect Costs	Reduction in base structure to eliminate unnecessary infrastructure	4-10
	Improve the Readiness and Quality of Key Facilities	67 Year FSRM Recapitalization Rate	4-9
		Reliability & Maintainability Shortfall	4-9
		Inadequate family housing units	4-7, 4-8
		Number of Privatization Projects	4-7
		Readiness status of facilities	4-8, 4-9
	Realign Support to the Warfighter (including Defense Agencies)	Tooth-to-Tail Ratio	1-4
Operational Risk	Do We Have the Forces Available?	Battle Force Ships	2-8
		Active Air Wings	2-15
		Active Primary Authorized Aircraft (PAA)	2-15
		Number of Marine Expeditionary Forces	2-21
		Number of Marine Expeditionary Brigades	2-21
		Number of Marine Battalions	2-21
	Are They Currently Ready?	Navy/Marine Corps Personnel Readiness Ratings	3-2, 3-6
		Active Flying Hours T-Rating	2-17
		Active Steaming Days Per Quarter	2-9
	What Are Our Critical Force, Sustainment, and Infrastructure Needs?	Aircraft Mission Capable Rates	2-18
		Airframe Availability/PAA	2-19
		Aircraft Engine Bare Firewalls	2-19
		Aircraft Engine Spares Ready-to-Issue	2-19
		Ship Maintenance % Rqmnt Funded	2-13
		Surge Sealift Ships and Capacity	2-11
		Prepositioning Ships and Capacity	2-11
		Reserve Steaming Days Per Quarter	2-10
		Reserve Battle Force Ships	2-10
		Reserve Air Wings	2-15
		Reserve Flying Hours T-Rating	2-17
		Reserve Primary Authorized Aircraft	2-15
	Are We Successfully Executing our Strategy?	Deferred Ship Maintenance	2-13
		Deferred FSRM	4-9
		Ships Deployed	2-7
		MEUs deployed	2-7
		Ships Underway	2-7
		MEUs predeployment	2-7
		Active/Reserve Navy/Marine Corps Strength	3-3, 3-4, 3-5, 3-7, 3-8

Future Challenges Risk	Drive Innovative Joint Operations	Joint/International Exercises	2-7
	Develop More Effective Organizations	Capitalizing on innovation, experimentation, and technology	5-1
	Define Skills and Competencies for the Future	Implementing Sea Warrior Initiative	3-2
	Define and Develop Transformational Capabilities	Implement enhanced naval capabilities to project offense, project defense, and project sovereignty around the globe	1-3
		Aviation Procurement Plan	5-7
		Ship Construction Plan	5-3
		Aviation/Ship Weapons Quantities	5-4, 5-8
		Marine Corps Ground Equipment Quantities	5-13
		Implement network centric warfare	5-10, 5-11
		Major Platform R&D	5-16
		Maintain Balanced and Focused Science and Technology	5-16
		Funding for R&D support	5-16

Other Performance Metrics

Throughout the overview book metrics have been addressed which are included in our performance plan and provide a measure of our overall effectiveness. Within the Department of the Navy, goals and objectives have been implemented through the Planning, Programming, Budgeting, and Execution System (PPBES) process. PPBES accommodates the integration of operational goals, risk management, and performance across the broad spectrum of Department of the Navy missions. These metrics are also contained in budget justification materials supporting the FY 2006/FY 2007 budget request as directed by Congress.